RAISING THE NATIONAL TELEVISION OWNERSHIP REACH CAP TO 50%:

AN ECONOMIC ANALYSIS

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BIA ADVISORY SERVICES

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Executive Summary

This report provides an analysis of the 50% national cap proposal and examines the proposal's potential impact and benefits for the public and the local television ecosystem. As shown in the report, the 50% proposal would maintain a diversity of competitive voices while allowing local television station groups to compete more effectively in today's local video marketplace.

The local television industry is under significant competitive pressure from other media. The market for both viewers and advertisers is hyper-competitive. Broadcasters are competing against stronger local competition and also against unregulated, nationwide competitors such as Google and Facebook, who are targeting local advertising. Consequently, any change in the national ownership cap should be viewed in the context of this highly competitive video marketplace. Allowing television groups to potentially combine with one another will lead to greater operating efficiencies, the provision of more regional programming, stronger newsrooms focused on enterprise reporting and investigative journalism, and greater revenue potential. All of these things are important for ensuring that local television remains a healthy competitor in the video ecosystem.

The local media marketplace in which television stations compete continues to metamorphose. Advertising platforms for national, regional, and local companies have exploded, with many of these platforms providing efficient, targeted audiences. Local television stations are being squeezed by these new, unregulated competitors. Local television stations currently capture only 13% of local advertising nationwide. Local stations are experiencing an erosion of market share as large national online firms (e.g., Google and Facebook, etc.) have rapidly secured a large share of local ad dollars.

Some local television groups have maintained their position and even expanded their reach by aggressively developing their own digital platforms and by acquiring other local television stations. The FCC's recent revision of the local duopoly rule is a good and significant step for the health of the local television ecosystem. National cap growth would be beneficial to stations and advertisers as well. The cost savings that these groups could enjoy as a result of an increased national cap are substantial in the areas of central office operations, "hubbed" engineering or creative services operations, acquiring equipment, and the production and purchase of programming. Larger television groups would be better able to sell their advertising time (to advertisers who are continually searching for aggregated and targeted audiences) and improve their programming, making them stronger competitors in their markets.

Implementing a 50% national reach cap without a UHF discount would constrain consolidation involving the largest groups. None of the top ten local television groups in terms of reach could combine with another of the top ten without some divestitures in order to bring total reach below 50%. Certain top ten groups could combine with groups ranked 11 and lower and still be below the 50% threshold. At the same time, groups ranked 11 and lower could combine and remain well under the 50% threshold, making them more efficient and competitive.

The 50% proposal appears to be a fair compromise. Larger groups already have benefitted from scale efficiencies, and the rest of the industry could still pursue combinations to gain such efficiencies with a 50% cap. Additionally, a 50% cap will ensure that there will be significant

numbers of television groups serving the entire United States, providing diverse market representation, while competing in the development of programming, and innovating and improving the overall competitiveness of the local television station industry. In short, the 50% proposal strikes an appropriate balance between the need for competitive scale in current market conditions and the necessity for diversity of ownership in the local television industry.

Introduction

To say the marketplace in which local television stations find themselves has changed is an understatement. Viewers now have a plethora of additional choices available to them for entertainment, news, and information. National and local companies also have many more advertising platforms to use in getting their messages to consumers. Large companies competing for viewers and advertisers have emerged with strong financial resources to compete in the video marketplace.

These changes in the market facing local television stations—where audiences continue to fragment and advertisers increasingly have more options in terms of reaching audiences—raise significant challenges for many stations. Digital platforms are not constrained by ownership or national audience limits and thus enjoy economies of scale not available to broadcasters. These national digital companies are unrestricted from serving 100% of U.S. households with their video services. Addressing this competitive imbalance should be a policy priority for the Commission in order to ensure a more fully functioning and competitive marketplace.

Some have argued to completely eliminate the national reach cap restrictions on the number of local television stations any individual or company can own. Others, who do not adequately recognize the changing landscape, have suggested eliminating the UHF discount (which presently is applied to determine compliance with that cap) without increasing the national audience reach cap. A group made up of several local television groups recently proposed raising the national ownership cap to 50% while simultaneously eliminating the UHF discount. Existing television groups that exceed that new, 50% cap would be grandfathered. The purpose of this paper is to analyze the potential economic and public interest benefits from adopting the 50% cap proposal.

Before examining the impact of the 50% cap proposal, it is necessary to define the current market in which local television stations compete. As a result of intensifying competition, local television stations are increasingly challenged to innovate, develop new revenue sources, and become more efficient, both in terms of revenue generation and in keeping operating costs down. Local television companies need to achieve scale efficiencies in order to provide more competitive services for viewers and advertisers. The report will detail these potential benefits as well as analyze the potential impacts of the proposal.

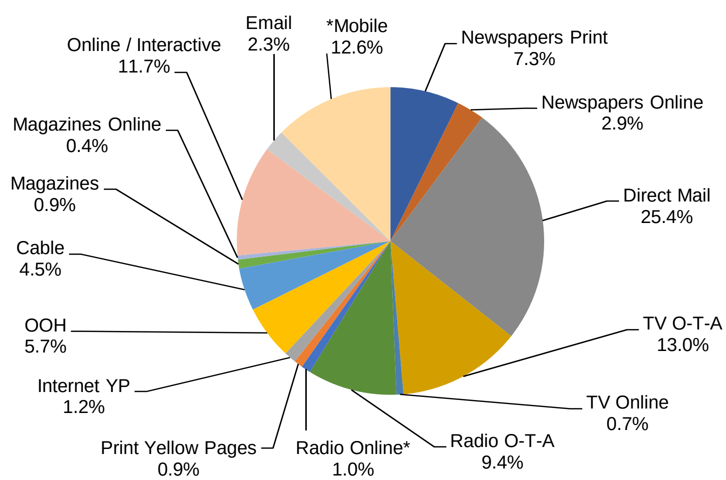
Based on our economic analysis, it is clear that the potential benefits to the local video ecosystem from adopting the proposal for a 50% cap (and the elimination of the UHF discount) are significant. The 50% cap is a reasonable policy choice that would allow television groups to expand into new markets and become more efficient in their operations at more optimal economies of scale. At the same time, the proposal would ensure that a vibrant and diverse mix of television groups remain and continue to compete against each other, to the benefit of the public. Without some relief from the current national ownership cap, local television stations will continue to be hamstrung economically when competing in the rapidly changing marketplace. Obviously, a local station's ability to serve the viewers in its market is premised on a healthy economic foundation. In our judgment, allowing the local television industry a modest degree of flexibility to achieve economies of scale and scope both in local markets (duopoly relief) and in the national marketplace (national audience reach cap) is called for in 2018, given the current state of competition in the video marketplace.

Intensifying Competition in the Local Advertising Market

It is a fact that local television stations are confronting more, varied competition in the local advertising marketplace. In order to best provide information on the current state of the local advertising marketplace, BIA examined the advertising platforms for which our local advertising estimates are generated. Through our new online dashboard, BIA ADVantage, specific local information on sixteen different advertising platforms is provided. This includes all types of media and online companies—local television stations, local radio stations, pure-play online companies, and MVPDs, among others.

Across the various advertising platforms, BIA estimates that national and local advertisers will spend $151.2 billion targeting consumers in the 210 television markets in 2018. Of that total, as shown in Figure 1, local television stations collectively are expected to generate $19.7 billion in over-the-air ("OTA") revenue, just 13% of the total local advertising pie.

Figure 1- 2018 U.S. Local Media Revenue — $151.2 Billion



Source: BIA ADVantage, 2018

Local television station ("over-the-air" or "OTA") advertising revenue[1] in 2018 is greatly influenced by anticipated political advertising revenue during this election cycle. In fact, BIA estimates that total local television station OTA revenue will decrease in 2019 by nearly 5% due to the absence of political advertising. By 2022, another non-Presidential election year, local television stations' core advertising revenue share of the total local advertising market is projected to decline to 12.7%.[2]

In contrast, two advertising platforms that will see substantial gains in the local advertising markets are the pure-play online and mobile advertising platforms. In 2018, online sites are expected to acquire 11.7% of the total market advertising revenue, and mobile sites are expected to acquire 12.6% of the total market advertising revenue. By 2022, those shares will increase to 12.8% and 19.2%, respectively.[3] Those share increases for online and mobile advertising platforms are driven by the increased focus of many national online firms to sell more advertising targeted to local markets. BIA estimates those digital advertising revenues generated in individual television markets for these national online firms as part of its BIA ADVantage data service. Figure 2 shows the estimated total online/digital advertising revenue generated nationwide across all television markets for 2018.

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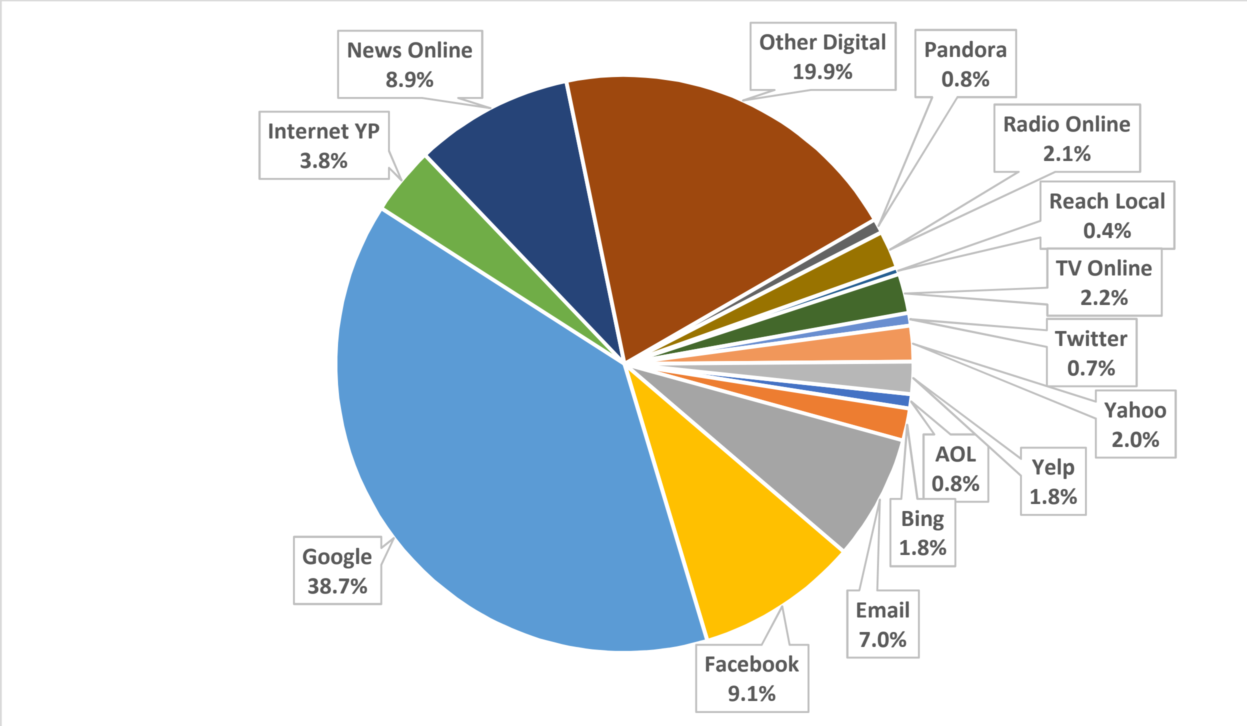
[1] OTA television advertising revenue means all the advertising revenue generated by all local television stations from selling advertising time on all of their on-air programming, whether received via over-the-air means or through local cable, satellite and other forms of multichannel distribution systems. This revenue also includes all political advertising revenue.

[2] BIA ADVantage revenue estimates, June 2018.

[3] Ibid.

Figure 2- 2018 Online/Digital Ad Spending Nationwide: $49.5 Billion



Source: BIA ADVanatage, 2018

Online companies like Google and Facebook, as well as other national and local advertising platforms, can provide very targeted audiences for national and local advertisers wishing to reach specific consumers in all television markets. As can be seen from Figure 2, Google, with its AdWords, YouTube, and other online properties, takes the "lion's share" of this growing online ad market. In fact, Google, as a stand-alone company, generates $19 billion of locally targeted digital advertising revenue. This single company generates as much local advertising as all the local television stations via their over-the-air advertising ($19.2 billion).[4] Google's digital total will only increase in the coming years as this area of local advertising continues to grow at a significant rate. By 2022, national digital (mobile plus desktop) advertising will exceed $73 billion,

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[4] *See* "Google to Dominate Local Digital Advertising in 2018, According to BIA Advisory Services," (May 7, 2018), http://www.biakelsey.com/google-dominate-local-digital-advertising-2018-according-bia-advisory-services/.

and Google is projected to have nearly two-fifths of that total.[5] Note that local television's online/digital ad share in 2018 is 2.2% compared to Google's 38.7%.

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[5] Ibid.

Examination of the Current National Audience Reach Cap for TV Groups

In order to assess the impact of the 50% household reach cap proposal, we first describe the present reach of local television station groups. Utilizing BIA's proprietary Media Access Pro™ database of all commercial and noncommercial television stations, we can calculate the present reach of the various television groups.[6] Table 1 shows the top fifty groups (in terms of households reached) utilizing the present FCC method of calculating reach (i.e., applying the UHF discount),[7] along with the percentage of U.S. television households that such groups could acquire (i.e., "head room") while still complying with the present national cap regulation.

Under the current national ownership cap, with the UHF discount, only two broadcasters are close to the ownership limit: Sinclair Broadcast Group (30.7%, not including the potential acquisition of Tribune Media) and ION Media (33.8%). As shown, if the UHF discount remains, most groups would have ample room for acquisitions, but most would be penalized in terms of growth potential at a time when competition is intensifying.

If, however, the UHF discount is eliminated without any increase in the national reach cap, four groups would exceed the cap and the remaining groups would have less ability to grow and become more effective competitors against the newer, emerging competitors (e.g., Google, Facebook, etc.) they now face. Further, they would not be able to fully enjoy the scale economies detailed in a later section.

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[6] We specifically do not attribute the acquisitions that have been announced but not consummated as of May 23, 2018. For example, Sinclair's pending acquisition of Tribune, along with their spin-offs, is not included in these calculations.

[7] These calculations are made with the BIA Media Access Pro™ database of local television households. While the television market values are not exactly the same values as the Nielsen Media market values, they are very close, differing in only hundredths of percentage points.

Table 1 - Reach & Growth Potential of Top Television Groups With UHF Discount

Rank	Group	Stations	Markets	% of U.S. TV HHs Reached With UHF Discount	Current Growth Potential	Rank	Group	Stations	Markets	% of U.S. TV HHs Reached With UHF Discount	Current Growth Potential
1	ION Media	60	59	33.8%	5.6%	26	Ellis Commun.	1	1	4.9%	35.0%
2	Sinclair Broadcast	117	91	30.7%	8.7%	27	Christian TV Net.	13	13	4.8%	35.1%
3	TEGNA Inc	44	38	27.2%	12.2%	28	Cunningham	16	16	4.1%	35.8%
4	Nexstar Media	118	100	25.6%	13.8%	29	Graham Media	7	6	3.9%	36.0%
5	Fox Television	28	17	24.6%	14.8%	30	Venture Tech.	3	3	3.4%	36.5%
6	CBS TV	27	17	24.6%	14.8%	31	HC2 Holdings Inc	3	3	3.3%	36.6%
7	Univision	41	26	23.6%	15.8%	32	Mountain Broad.	1	1	3.2%	36.7%
8	ABC/Disney	8	8	20.7%	18.7%	33	Maranatha Broad.	2	1	2.6%	37.3%
9	Trinity Broadcast	31	31	20.5%	18.9%	34	Sonshine Family	1	1	2.6%	37.3%
10	Tribune Media	28	23	19.8%	19.6%	35	Western Pacific	1	1	2.6%	37.3%
11	Comcast/NBC	28	21	19.7%	19.7%	36	Spanish Broadcast.	4	2	2.5%	37.4%
12	Hearst Television	31	26	13.3%	26.1%	37	Sunbeam	3	2	2.5%	37.4%
13	NRJ TV LLC	9	8	12.6%	26.8%	38	Stephen Mumblow	9	8	2.5%	37.4%
14	EW Scripps Co	27	23	11.5%	27.9%	39	HERO Broad.	1	1	2.4%	37.5%
15	Daystar	19	19	11.1%	28.3%	40	Ellis Commun.	1	1	2.4%	37.5%
16	Raycom Media	46	43	10.8%	28.6%	41	Howard Stirk	5	7	2.4%	37.5%
17	WRNN-TV	3	4	10.1%	29.3%	42	Mission Broadcast.	19	18	2.2%	37.7%
18	Gray Television	67	55	8.9%	30.5%	43	Hubbard Broad.	8	6	2.1%	37.8%
19	Liberman Broad.	6	6	7.2%	32.2%	44	Lockwood Broad.	5	5	1.9%	38.0%
20	Entravision	24	21	7.1%	32.3%	45	KAZT LLC	1	1	1.7%	38.2%
21	Meredith Corp	16	12	7.0%	32.4%	46	Quincy Media Inc	14	14	1.7%	38.2%
22	PMCM TV LLC	1	1	6.3%	33.1%	47	Berkshire Hathaway	1	1	1.4%	38.5%
23	Weigel Broadcast.	8	6	6.1%	33.3%	48	Dispatch Broad.	2	2	1.3%	38.6%
24	Cox Media Group	13	10	6.0%	33.4%	49	American Spirit	8	8	1.3%	38.6%
25	Meruelo Media	1	1	4.9%	34.5%	50	CNZ Commun.	3	3	1.3%	38.6%

Source: Media Access Pro™, BIA Advisory Services

Evaluation of 50% Audience Reach Cap Proposal

The historical tradeoff related to the national audience reach cap has been balancing concerns for diversity of voices against the economic benefits that result when television stations are better able to service their local communities. There has been a longstanding concern that domination of the local television station industry by only a handful of large television groups might lead to lesser competition in the area of program development. While that is a valid concern, at the same time, local television stations are currently being squeezed by increased competition for advertiser clients and continuing cost increases. Hence, there is a need to realize some efficiencies from the ability to expand.

Under the proposed 50% cap, along with the elimination of the UHF discount, only ION Media would exceed the cap, assuming present ownership. If the Sinclair acquisition of Tribune Media properties proceeds, along with the proposed spin-offs, Sinclair would exceed that threshold as well.[8] A 50% cap would allow a moderate degree of consolidation while still ensuring the existence of enough television operators to foster competition in the provision of programming, equipment, and other services to the industry. The 50% cap would allow local television to compete effectively for audiences and advertisers. Table 2 shows the top 50 groups with their reach, along with the percentage of U.S. television households that they still could acquire, while remaining under the 50% proposed cap.

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[8] This 50% proposal assumes that groups exceeding the threshold prior to its implementation would be grandfathered.

Table 2 - Reach of Top Television Groups Without the UHF Discount

Rank	Group	Stations	Markets	% of U.S. TV HHs Reached W/O UHF Discount	50% Cap Proposal Growth Potential	Rank	Group	Stations	Markets	% of U.S. TV HHs Reached W/O UHF Discount	50% Cap Proposal Growth Potential
1	ION Media	60	59	67.3%	N/A	26	Ellis Commun.	1	1	4.9%	45.1%
2	Sinclair Broadcast	117	91	48.2%	1.8%	27	Christian TV Net.	13	13	7.5%	42.5%
3	TEGNA Inc	44	38	32.3%	17.7%	28	Cunningham	16	16	8.0%	42.0%
4	Nexstar Media	118	100	39.1%	10.9%	29	Graham Media	7	6	6.9%	43.1%
5	Fox Television	28	17	37.3%	12.7%	30	Venture Tech.	3	3	6.7%	43.3%
6	CBS TV	27	17	37.7%	12.3%	31	HC2 Holdings Inc	3	3	6.6%	43.4%
7	Univision	41	26	44.8%	5.2%	32	Mountain Broad.	1	1	6.3%	43.7%
8	ABC/Disney	8	8	22.4%	27.6%	33	Maranatha Broad.	2	1	2.6%	47.4%
9	Trinity Broadcast	31	31	40.1%	9.9%	34	Sonshine Family	1	1	2.6%	47.4%
10	Tribune Media	28	23	32.9%	17.1%	35	Western Pacific	1	1	2.6%	47.4%
11	Comcast/NBC	28	21	36.8%	13.2%	36	Spanish Broadcast.	4	2	3.6%	46.4%
12	Hearst Television	31	26	18.7%	31.3%	37	Sunbeam	3	2	3.5%	46.5%
13	NRJ TV LLC	9	8	22.9%	27.1%	38	Stephen Mumblow	9	8	4.6%	45.4%
14	EW Scripps Co	27	23	18.3%	31.7%	39	HERO Broad.	1	1	4.9%	45.1%
15	Daystar	19	19	17.9%	32.1%	40	Ellis Commun.	1	1	4.9%	45.1%
16	Raycom Media	46	43	15.9%	34.1%	41	Howard Stirk	5	7	3.5%	46.5%
17	WRNN-TV	3	4	13.3%	36.7%	42	Mission Broadcast.	19	18	3.3%	46.7%
18	Gray Television	67	55	11.7%	38.3%	43	Hubbard Broad.	8	6	3.2%	46.8%
19	Liberman Broad.	6	6	13.0%	37.0%	44	Lockwood Broad.	5	5	1.9%	48.1%
20	Entravision	24	21	14.2%	35.8%	45	KAZT LLC	1	1	1.7%	48.3%
21	Meredith Corp	16	12	11.0%	39.0%	46	Quincy Media Inc	14	14	2.5%	47.5%
22	PMCM TV LLC	1	1	6.3%	43.7%	47	Berkshire Hathaway	1	1	1.4%	48.6%
23	Weigel Broadcast.	8	6	12.1%	37.9%	48	Dispatch Broad.	2	2	1.7%	48.3%
24	Cox Media Group	13	10	11.4%	38.6%	49	American Spirit	8	8	2.1%	47.9%
25	Meruelo Media	1	1	4.9%	45.1%	50	CNZ Commun.	3	3	1.8%	48.2%

Source: Media Access Pro™, BIA Advisory Services

All the other television groups (besides ION Media and Sinclair) would be below the 50% cap and would have the ability to make acquisitions or combine with other television groups. Concerns about too much consolidation should be eased under this proposal; the potential combinations of groups would be limited because none of the top ten groups in terms of television household reach could be combined with another of the top ten without some divestitures to bring the total reach below 50%. Certain top ten groups could be combined with groups ranked 11 and lower and remain below the 50% threshold.[9] At the same time, groups ranked 11 and lower could combine, permitting them to become more efficient and competitive, a topic discussed in the section below.

The 50% cap proposal would still leave the top ten groups near the nationwide reach levels that they have now, and other top groups would be able to acquire more stations and realize the scale efficiencies necessary to compete in today's market. While it is impossible to estimate the ultimate number of large television groups, it is reasonable to assume that there will still be a considerable number of them, probably in excess of twenty. With that number there would still be a significant diversification of voices, along with a vibrant level of competition between such groups.

Raising the national audience reach cap beyond 50% would not yield much added benefit. If the cap was raised to either 60% or 70% (without the UHF discount), some of the top ten groups could be combined and a multitude of the groups ranked 11 and lower could be combined.

[9] For example, Tegna and Hearst Television could be combined and remain below the 50% threshold without any divestitures (besides those necessary to comply with other local ownership regulations).

It is also instructive to compare the relative difference in the ability to grow under the present national cap regulations and the 50% cap proposal. Table 3 shows that comparison.

Table 3 - Comparison of Growth Potential Under Present National Cap Regulation and 50% Cap Proposal

Rank	Group	% of U.S. TV HHs Reached w. UHF Discount	Current Growth Potential	% of U.S. TV HHs Reached w/o UHF Discount	50% Cap Proposal Growth Potential	Rank	Group	% of U.S. TV HHs Reached w. UHF Discount	Current Growth Potential	% of U.S. TV HHs Reached w/o UHF Discount	50% Cap Proposal Growth Potential
1	ION Media	33.8%	5.6%	67.3%	N/A	26	Ellis Commun.	4.9%	35.0%	4.9%	45.1%
2	Sinclair Broadcast	30.7%	8.7%	48.2%	1.8%	27	Christian TV	4.8%	35.1%	7.5%	42.5%
3	TEGNA Inc	27.2%	12.2%	32.3%	17.7%	28	Cunningham	4.1%	35.8%	8.0%	42.0%
4	Nexstar Media	25.6%	13.8%	39.1%	10.9%	29	Graham Media	3.9%	36.0%	6.9%	43.1%
5	Fox Television	24.6%	14.8%	37.3%	12.7%	30	Venture Tech.	3.4%	36.5%	6.7%	43.3%
6	CBS TV	24.6%	14.8%	37.7%	12.3%	31	HC2 Holdings	3.3%	36.6%	6.6%	43.4%
7	Univision	23.6%	15.8%	44.8%	5.2%	32	Mountain Broad.	3.2%	36.7%	6.3%	43.7%
8	ABC/Disney	20.7%	18.7%	22.4%	27.6%	33	Maranatha Broad.	2.6%	37.3%	2.6%	47.4%
9	Trinity	20.5%	18.9%	40.1%	9.9%	34	Sonshine Family	2.6%	37.3%	2.6%	47.4%
10	Tribune Media	19.8%	19.6%	32.9%	17.1%	35	Western Pacific	2.6%	37.3%	2.6%	47.4%
11	Comcast/NBC	19.7%	19.7%	36.8%	13.2%	36	Spanish Broad.	2.5%	37.4%	3.6%	46.4%
12	Hearst Television	13.3%	26.1%	18.7%	31.3%	37	Sunbeam	2.5%	37.4%	3.5%	46.5%
13	NRJ TV LLC	12.6%	26.8%	22.9%	27.1%	38	Stephen Mumblow	2.5%	37.4%	4.6%	45.4%
14	EW Scripps Co	11.5%	27.9%	18.3%	31.7%	39	HERO Broad.	2.4%	37.5%	4.9%	45.1%
15	Daystar Television	11.1%	28.3%	17.9%	32.1%	40	Ellis Commun.	2.4%	37.5%	4.9%	45.1%
16	Raycom Media	10.8%	28.6%	15.9%	34.1%	41	Howard Stirk	2.4%	37.5%	3.5%	46.5%
17	WRNN-TV	10.1%	29.3%	13.3%	36.7%	42	Mission Broad.	2.2%	37.7%	3.3%	46.7%
18	Gray Television	8.9%	30.5%	11.7%	38.3%	43	Hubbard Broad.	2.1%	37.8%	3.2%	46.8%
19	Liberman Broad.	7.2%	32.2%	13.0%	37.0%	44	Lockwood	1.9%	38.0%	1.9%	48.1%
20	Entravision	7.1%	32.3%	14.2%	35.8%	45	KAZT LLC	1.7%	38.2%	1.7%	48.3%
21	Meredith Corp	7.0%	32.4%	11.0%	39.0%	46	Quincy Media	1.7%	38.2%	2.5%	47.5%
22	PMCM TV LLC	6.3%	33.1%	6.3%	43.7%	47	Berkshire Hathaway	1.4%	38.5%	1.4%	48.6%
23	Weigel Broad.	6.1%	33.3%	12.1%	37.9%	48	Dispatch Broad.	1.3%	38.6%	1.7%	48.3%
24	Cox Media Group	6.0%	33.4%	11.4%	38.6%	49	American Spirit	1.3%	38.6%	2.1%	47.9%
25	Meruelo Media	4.9%	34.5%	4.9%	45.1%	50	CNZ Commun.	1.3%	38.6%	1.8%	48.2%

Source: Media Access Pro™, BIA Advisory Services

Of the 48 groups (excluding ION Media and Sinclair), seven would see a decrease in the growth potential. The remaining groups, for the most part, would see a slight increase in growth potential. In fact, the average increase (excluding ION Media and Sinclair) in growth potential is 5.75% of U.S. television households. The greater ability of these smaller television groups to grow would enable them to better compete with alternative, nationwide advertising platforms that face no growth restrictions. Additionally, these television groups would be better able to take advantages of economies of scale, enabling them to provide improved advertising and news services to their local communities, as addressed in the following section.

Potential Economic Scale Efficiencies Allowing for Modest Growth

As previously described, the challenges facing local television stations are significant. Competition for viewers and advertiser clients is increasing daily, forcing television station groups to look for different ways to sell and operate in a more efficient manner. Allowing these local television groups to be able to expand is imperative. One way of allowing such expansion is to provide local stations greater flexibility to enter into local duopolies; this regulatory relief is most necessary.[10] Raising the national cap to 50% is important as well and will provide television groups with increased opportunities to develop efficiencies and innovate by creating new, audience-aggregating advertising products.

In order to assess the magnitude of these potential efficiencies, we surveyed some of the television groups ranked 11 and lower in terms of television households reached. The discussion below describing the different areas of potential efficiencies references some of the answers we received from participating group executives. The names of respondents are not disclosed. As you will see from the responses, these scale efficiencies are quite real, and they enable television groups to remain effective competitors while also providing improved services to viewers. A noticeable result of allowing more station groups to realize these scale efficiencies would be a more competitive marketplace between all local television groups.

Ability to Generate In-House Programming

One potential benefit from television groups acquiring more properties does not necessarily result in cost savings, but instead in more competitive programming. Larger television groups have

[10] We note that the FCC is scheduled to consider the Top-4 Rated Station provision of the Duopoly Rule in its 2018 Quadrennial Review of the broadcast ownership rules.

the ability to develop new, in-house programming, since they have more outlets on which to air that programming. "The larger the group, the more channels that are available to run developed programming and spread the costs," said one group executive, putting it succinctly.

One group exec described what the group is able to do because of these scale economies:

> "With more content available within the group, we aggregate news, food, and fun content pertaining to consumer interests and historical events; and have launched syndicated shows focused on audience interests. In addition, we have developed unique long-form programming for digital platforms on investigative content impacting government waste, public corruption, healthcare, and consumer products by aggregating local investigative coverage. By owning adjacent markets, we have also had the ability to launch special sports and regional related programming to cover high interest issues."

Still another group has developed a nationally syndicated program, has expanded local news on its multicast channels, and expanded its coverage of local sports.

These examples clearly demonstrate the substantial efficiencies with respect to programming that could be enhanced with further growth. When groups are able to develop their own programming, much of which has a local focus, they are better able to compete with the other video services now in the marketplace.

Greater News Coverage of Local and Statewide Issues and National News

The in-house programming scale efficiencies discussed above are perhaps best shown through the coverage of national and local news by stations in growing groups. With respect to coverage of national news, one group has recently expanded its Washington, D.C., news bureau; another group indicated it is in the midst of completing a large expansion of its D.C. bureau. Even with national news bureaus in the Nation's Capital, there is a localism twist that better serves the public. Local television station groups' D.C. news bureaus focus their coverage on their local Congressmen and Senators. (By contrast, the national television networks tend, understandably, to focus on the House and Senate leadership.) Other groups that have a number of stations within the same state have established similar state news bureaus.

One group explained what they have been able to do thanks to growth in recent years and suggested further expanding coverage with further growth:

> "A 24/7 digital newsroom was developed to provide expanded coverage on news on national and regional issues. Bureaus have developed based on news needs for that community or region. In each state where we have a licensee in a capital city, we have a dedicated reporter that covers key legislative issues, bills, and happenings that impact the local community of license and state. The reporter customizes the content based on the markets where we have licensees. We also have the ability to have a dedicated journalist create long-form programming, including debates and town hall style meetings."

Local television station groups are increasingly trying to develop new ways of collecting and distributing their local news programming. As local newspapers cut back on their staffing, local television stations are increasing their staffing and more people are relying on that reporting. Evidence of that movement by local television stations is found in a recent Knight Foundation study that reported on several stations' attempts to expand the distribution of their news programming:

> "[W]ith television's digital properties, journalists are testing new tools, storytelling models and distribution channels. A number of stations are now running digital-only "snackable" newscasts, like KGMB-TV in Honolulu. WXIA-TV in Atlanta has published investigative, episodic video stories on their websites, before airing them on TV. And in Tyler, Texas, KLTV-TV streams content all day."[11]

The increased ability to develop in-house programming and expanded news coverage is especially important given the capacity that local television stations have at present and will have

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[11] *See* Karen Rundlet and Sam Gill, "Beyond Live at Five: What's Next for Local TV News," https://medium.com/informed-and-engaged/beyond-live-at-five-whats-next-for-local-tv-news-d72a15b427a.

in the future with the advent of the ATSC 3.0 transmission technology. The use of multicast programming streams has greatly expanded the number of programs being offered by local television stations. As of May 30, 2018, 1,628 local television stations were programming 5,034 multicast streams.[12] The expanded capacity afforded by ATSC 3.0 transmission technology will only cause this number to increase. Having more stations under common control will only make that provision of increased service and innovation easier. Local news is plainly a public interest good. Local television stations' provision of local news, weather, sports, and public affairs programming is a core element of "localism."

More Choice for Local, Regional, and National Advertisers

Local television stations face an ever-increasing list of competitive advertising and video distribution platforms. Consequently, they must offer new and different opportunities for national and local businesses that want to get their messages out. By achieving a greater reach of U.S. TV Households, stations can offer their advertising clients more efficient advertising buys.

Many advertisers are increasingly interested in aggregating audiences on stations to reach targeted audiences (e.g. persons wishing to buy a particular brand of car). There is a movement in the advertising business toward audience-based (rather than program-based) buying.

One area of improved service to advertising clients mentioned by several of the television groups surveyed was the aggregation of groups' digital subchannel audiences. These subchannels, while offering diverse programming, tend to attract smaller audiences, making it less appealing as an ad buy on a channel-by-channel basis. Television groups with more stations in more markets and with more digital subchannels have begun to aggregate these disparate programming streams

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[12] Media Access Pro™, BIA Advisory Services, May 30, 2018.

in multiple markets into a single ad buy for national advertisers (e.g., a direct response advertiser). The improved ability to monetize these digital subchannels provides a sounder financial basis for this diverse programming, and for stations as well.

Growing local television groups can also benefit from aggregating programming from their main signals and selling that combined audience to advertisers. One group indicated that it has already been somewhat successful in selling to national advertisers from aggregating their audiences from their news programming. That group believes "that the more scale we can add, the more interest we will see in these types of products from traditional advertisers."

Another group executive summed up this area of potential efficiencies when he said, "[T]he addition of markets has given us the opportunity to expand our sales structure into new markets which in turn gives the company a more effective way to transact business locally, regionally, nationally and digitally."

Economic Efficiencies in Buying Equipment and Programming

In similar fashion, the ability to negotiate with equipment and programming suppliers improves when a television group acquires new stations. One group executive put it quite concisely when he said, "only by committing to purchasing larger quantities can we obtain discounts and savings." Another noted the benefit of better customer service that program suppliers provide as groups get larger, explaining that "access to programming and technical vendors in a timely manner is the most important benefit. We cannot afford to be the last stop."

Cost savings in these areas are quite important as local television stations spend considerable amounts on equipment and programming. Any savings in these areas for specific equipment and/or programming allows television groups to purchase the best products available, which in turn makes their local station services more competitive and provides better services to their local communities.

Economic Efficiencies of Central Offices

A seemingly obvious area of potential efficiencies realized when television groups acquire more television stations is that of central office functions. "Accounting, Human Resources, Legal, Technology, and other corporate services are traditionally combined for efficiencies," according to one group executive. Another group executive indicated that these cost savings are immediate and allow the group to quickly invest in other areas such as news and other types of programming. Still another group executive said that these central-office efficiencies are "a major cost savings and a part of any deal analysis."

Wider Reach for Other Applications

The advent of ATSC 3.0 transmission technology will expand both the provision of video programming and the types of services that local television stations provide. Expanding the reach of these television groups by allowing them to acquire additional stations will provide a sounder basis for these groups to develop these other services. Datacasting, provision of ISP services, and autonomous vehicle updates are just some of the services that local television station groups are exploring.

One group executive expressed the benefits of being a larger group when planning for these new services:

> "Scale/size/reach would only help to enhance and accelerate our exploration of these various business models, as well as give us the ability to run multiple tests to prove out concepts and business viability."

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Conclusion

Competing in today's media marketplace is not for the faint of heart. Local television stations, who once were only concerned about competing against other local television stations, now have to monitor daily new entrants that compete for both viewers and advertisers. As a result, the financial bases for these local television stations are continuously challenged. In order to ensure a healthy video distribution ecosystem going forward, the FCC must carefully consider the essential role played by local television stations in that ecosystem.

The optimal outcome in the FCC national ownership proceeding would be for the Commission to adopt the 50% national cap proposal.

QUALIFICATIONS

Mark R. Fratrik, Ph. D.

Mark R. Fratrik is a Sr. Vice President, Chief Economist for BIA Advisory Services, LLC (BIA), which offers merchant banking and financial and strategic advisory services for the media, telecommunications, and related industries. For more than 34 years BIA has assisted clients in increasing value by providing a wide range of services related to acquisitions, mergers, divestitures, operations, integration, growth and changes in strategic direction.

Prior to joining BIA in January 2001, Mr. Fratrik served NAB for 15 years as Vice President/Economist. While at NAB, Mr. Fratrik conducted primary research about the broadcasting and related industries. He has conducted several research studies including “Independent Radio Voices in Radio Markets,” “Format Availability After Consolidation,” “Interference from Low Power FM Stations to Existing Stations,” and “The 1990 Children's Television Act: Its Impact on the Amount of Educational and Informational Programming.” Also, Mr. Fratrik has written/co-authored numerous articles for publication including FM Subcarrier Market Report/Technology Guide, These Taxing Times: A Tax Guide for Broadcasters, and Strategic Planning Handbook for Broadcasters.

Before joining NAB in 1985, Mr. Fratrik worked for the Federal Trade Commission in the Bureau of Economics where he spent five years conducting analyses of industry practices to evaluate overall economic impact. Throughout his career, Mr. Fratrik has researched and spoken at numerous conferences on new media technologies including DTV datacasting. Also, Mr. Fratrik has worked closely with broadcasters in determining what opportunities lay in the spectrum as well as exploring regulatory matters concerning the spectrum.

Mr. Fratrik received his B.A. in mathematics and economics from State University of New York at Binghamton and his master's and doctoral degrees in economics from Texas A&M in College Station, Texas.